

Testimony of Rod Solomon
for the
Subcommittee on Federalism and the Census,
House Committee on Government Reform
February 15, 2006

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Mr. Chairman and Subcommittee members, thank you for the opportunity to testify. I am Rod Solomon, now with the law firm of Hawkins Delafield & Wood LLP here in Washington. I served at HUD from 1994 to 2003, in the Office of Public and Indian Housing, with responsibility for the development with Congress and then the implementation of public housing reform legislation. Immediately before HUD, I served for 14 years in executive positions at two large housing authorities. Last year, the Brookings Institution pushed my report entitled "Public Housing Reform and Voucher Success: Progress and Challenges," which reviews our progress under the 1998 law.

These oversight hearings should be welcomed. The public housing and voucher programs provide housing for over three million American households, and Congress needs to carefully track progress under these programs. The housing destitution left by Hurricanes Katrina, Wilma and Rita has been a grim reminder of both the importance of these two programs and the critical, differing role each can play.

Reasons for the Public Housing Reform Law

Enough progress has been made in the public housing and voucher programs that it is easy to forget the critical need for public housing reform agreed upon a decade ago. Although the voucher program has received the most attention lately, reform was sought mostly for the public housing program. By the mid-1990s, a consensus had emerged that in too many instances public housing failed to provide quality, affordable housing to the Nation's neediest families. The Nation's worst public housing developments housed poor minority families in isolated blocks of high-rises or overwhelming concentrations of low-rise buildings. Conditions at these developments were so corroded that they attracted drug and criminal activity. The management of public housing in many large cities had become abysmal, resulting in neglect of even the most basic building repair and maintenance needs. Because of these and many other factors, the best possible role models in public housing--working families--had mostly left.

The Reform Legislation

Public housing and voucher reform legislation began with a series of important provisions enacted in annual appropriations acts in the mid-1990s, and culminated with the Quality Housing and Work Responsibility Act of 1998, which I will call the Act. The Act codified and broadened the appropriations act reforms, to the extent that it became the most comprehensive overhaul of these programs since their inception. It consists of many individual initiatives--my reports tracks progress on 54 separate provisions. At the same time, Congress distilled its intent into seven different strategies for achieving public housing and voucher reform, which are included at the end of my testimony. Because those strategies are often cross-cutting, my report reviewed progress under the Act with respect to four broader objectives:

1. Improving or replacing the public housing stock;
2. Promoting self-sufficiency and poverty deconcentration;

3. Improving or replacing public housing management; and
4. Improving the voucher program.

Some of the Act's most basic reforms relative to each objective were:

Public housing stock: repeal the "one for one replacement" requirement, under which public housing authorities (PHAs) only could demolish or depose of public housing if each unit were replaced with another "hard unit" of public housing; establish a flexible public housing Capital Fund, and allow borrowing against future Capital Fund appropriations; allow mortgages of PHA property and other leveraging steps to promote use of private capital and mixed-financed public housing developments; authorize the HOPE VI program to replace or revitalize severely distressed public housing; and require conversion of distressed public housing to vouchers, and allow conversion of other public housing to vouchers with HUD approval.

Self-sufficiency and deconcentration: revamp the public housing rent structure to be more supportive of work efforts; encourage targeting of supportive services toward program recipients; require public housing community service; authorize the HOPE VI program to promote poverty deconcentration; repeal federal "admissions preferences," which contributed to poverty concentration by directing assistance to the most destitute families; adopt flexible income targeting for public housing, where families often will be housed at large low-income multifamily complexes, and maintain substantial income targeting to the poorest families for the voucher program, where families can use the vouchers to rent affordable apartments throughout their communities; authorize site-based public housing waiting lists; and require development-by-development public housing poverty deconcentration.

Public housing management: require changes in the public housing performance evaluation system to include more emphasis on resident living conditions; require receiverships for failed PHAs; provide fundamental deregulation to support asset and property management, such as the repeal of the one for one replacement requirement and repeal of federal admissions preferences already mentioned; require a "PHA Plan" to promote community participation; impose various other mandates to promote self-sufficiency or for other purposes; require and promote "One Strike" screening and eviction policies; and allow an alternative regulatory structure under which cities could negotiate performance plans for PHAs (called "Home Rule").

Section 8 Vouchers: require consolidation of the certificate and voucher programs; eliminate regulatory requirements that were inconsistent with market practices; allow PHAs to adopt flexible payment standards for setting subsidy levels; establish a voucher renewal baseline; establish various management performance requirements; and authorize specific initiatives such as homeownership and project-based vouchers.

Progress Since Enactment

Prior to examining progress by each objective, I will make some general observations. First, in over seven years since the Act was passed, Congress has made almost no further legislative changes. The biggest changes have come about through the appropriations process, notably in the means of funding the voucher program.

Second, even after seven years, regulations are not in place with respect to significant aspects of the Act. These include among others the rules with respect to aspects of leveraging private capital for public housing, on which not even a proposed rule has been issued, and for a PHA's voluntary conversion of public housing to vouchers. Other parts of the Act that Congress thought to be key at the time, such as receiverships for failed PHAs and the Home Rule provision, for various reasons have had minimal effect.

Third, as I will discuss further, the great progress that has been made in these programs during the past decade has occurred as a result of numerous actions of HUD, the PHAs, and others that are both related and unrelated to the Act.

Fourth, we should not become lost in the details and fail to recognize the sea change that has occurred in these programs and in many of the PHAs that administer them, both in public housing and in vouchers. In the public housing programs, we successfully have eliminated the vast majority of notorious bad projects and replaced them with mixed-income or lower-density public housing and substantially with vouchers, and have greatly upgraded management in many of our large cities. Voucher reform supported expansion in the number of families assisted by about 500,000 between 1997 and 2003, an expansion almost half the size of the entire public housing program.

With respect to public housing improvement and replacement, the repeal of the one for one replacement requirement, coupled with HOPE VI, other leveraging tools, and required conversion of distressed public housing to vouchers, resulted in major change for the better. Virtually all of the legendary bad projects, such as Cabrini Green and Robert Taylor Homes in Chicago, Haynes Homes in Newark, Allen Parkway Village in Houston and many others, are gone. Over 175,000 units have been approved for demolition or disposition, and about 135,000 actually demolished or disposed of. Replacement in large part is with vouchers, but also with mixed-income or lower-density public housing. In addition, HUD eventually implemented the ability for PHAs to borrow against receipt of future capital funds, and PHAs have borrowed almost \$3 billion. On the other hand, HUD has yet to implement some of the Act's important measures to provide additional flexibility in leveraging public housing assets, and Congress, supported by the Administration, severely reduced funding for HOPE VI.

With respect to self-sufficiency and deconcentration of poverty, the Act reduced poverty concentrations by the replacement of distressed public housing, including with vouchers. This has reduced the tragic warehousing of families where children were growing up amidst gunfire and hopelessness, such as that documented in Chicago in Alex Kotlovitz's compelling 1991 book *There Are No Children Here*. It is less clear whether the Act directly improved the self-sufficiency of public housing or voucher residents. The percentage of public housing and voucher families with the largest source of income coming from earnings increased greatly from 1995 through 2001, from about one third to about half in both programs, and remains much higher than prior to this period, but their real median incomes did not increase appreciatively. Many families went from welfare to work, at least in part, but those families' incomes on average remained "extremely low" by our definition.

Moreover, the improvements in self-sufficiency may be more attributable to the then-improving economy and welfare reform than to provisions of the Act. The percentage of

residents whose largest source of income is earnings, not surprisingly, has tracked economic trends to an extent. Finally, the contribution of the Act's public housing rent incentives is unclear. These measures, taken together with rent requirements of other laws and regulations, have resulted in a rent system that is very burdensome to administer, and the incentives may be compromised because they are not understood or lost in the morass of rent calculation details.

With respect to public housing management, both HUD and individual communities made substantial and successful efforts. As a result, many large-city PHAs, such as Chicago, Washington, D.C., Philadelphia, and a number of others, are substantially better managed today than prior to the reforms. For the most part, however, these efforts occurred independently of the Act. HUD's implementation of the new performance system, called the Public Housing Assessment System or "PHAS," was delayed several years by controversy, although it does appear to have had a positive impact on physical conditions of the Nation's public housing. The Act's most demonstrative penalty for poor management--mandatory receivership--was not implemented until recently. Alternative management and regulatory arrangements authorized by the Act largely were not tried, although a number of PHAs opted for private management of some or all of their public housing. A number of the Act's initiatives, regarding rent calculations, community service, and other provisions, resulted in more rather than less administrative burden. But increased flexibility in the areas of demolition and replacement, tenant selection and leveraging funding clearly supported improved management.

With respect to vouchers, the Act provided a sound basis for the program's expansion. The consolidation of the certificate and voucher programs and elimination of unnecessary rules resulted in a more streamlined, market-driven program and encouraged landlord participation, and the additional flexibility to set voucher payment standards helped many families find acceptable housing. To an extent, the additional per-unit cost of the program relates to these initiatives and HUD initiatives along the same lines. These initiatives were undertaken to address concerns that families receiving vouchers were not successfully finding units, in some instances were paying unreasonable percentages of their incomes for rent even if they had vouchers, and were finding housing only in areas with high poverty concentrations.

Recommendations for the Programs and for the Subcommittee's Work

My report made a number of specific recommendations, mostly for HUD but in some instances for Congress, that would assist in achievement of the Act's purposes and in the further improvement of the public housing and voucher programs. I have attached a list of the issues and recommendations that the report included, as well as its overall conclusion.

More generally, there are some matters I believe the Subcommittee should review or emphasize as it examines progress in these programs. First, the Subcommittee's work should emphasize the importance of the public housing and voucher programs and their need for adequate funding, even in these difficult budget times.

Second, the Subcommittee should examine additional steps HUD can take to analyze or release critical data that will enable better monitoring of the progress and impact of these important public housing and voucher reforms should be examined. For instance, little data is collected on the demolition and replacement of public housing units outside of HOPE VI,

the status of relocated families, and the effectiveness of replacement vouchers. As another example, more focus is needed on the impact of the public housing rent incentives. HUD's required annual reports on the impact of important aspects of the Act have been useful, but extremely late and not made widely available.

Third, the Subcommittee should examine the extent to which HUD needs to do more to expedite reform. HUD needs to finish the job of completing the necessary regulations or guidance, in a manner that supports the reforms--for example, to allow for the full range of tools for leveraging funds. The Committee should support HUD's needs for staff to accomplish this, and stress that HUD should stabilize and simplify regulatory and approval requirements wherever possible. For example, the approval process for borrowing against future capital funds needs to be expedited and streamlined, and the new regulatory emphasis on management of individual properties rather than entire PHAs must be implemented with substantial flexibility.

Fourth, with respect to possible Congressional action apart from funding:

(A) The Subcommittee should highlight the need for a program such as HOPE VI, to provide the grants necessary to leverage funds that can contribute substantially to poverty deconcentration and the turnaround of neighborhoods, and provide additional support for those relocated. These grants cannot be replaced effectively by loan programs, and can be a catalyst for the best practices nationally in leveraging of private capital for public housing.

(B) The Subcommittee should examine the need for further initiatives to allow leveraging of private capital funds. For example, the Bush Administration proposed a "Public Housing Reinvestment Initiative" several years ago to allow property-based financing of public housing along the lines other affordable housing is financed, but Congress did not enact it and the Administration did not pursue it further. The Millennial Commission and the Harvard Cost Study advanced similar concepts.

(C) The Subcommittee should promote program simplification and added flexibility. This particularly includes the need to replace complex public housing rent provisions with simpler provisions aimed at achieving similar affordability and incentives. Additional measures also are needed to eliminate or streamline various provisions of the Act, or to make the Act's initiatives more workable. More generally, Congress' future actions should aim to require local performance and require by statute the fundamental program elements--continued availability of units, income targeting of families to receive assistance, and affordability of government-assisted housing--and otherwise to leave plenty of room for local innovation.

(D) The Subcommittee should highlight the basic success of the voucher program, and advocate for any necessary cost and other reforms that are consistent with promoting that success.

In summary, we must recognize the great progress that has been made over the last decade in the public housing and voucher programs, complete the job of fully activating the tools available, monitor results, and carefully remedy these programs' shortcomings. The Subcommittee can make an important contribution toward achieving those goals, and I appreciate the opportunity to help you make that effort.

Attachments

The Act's Stated Purpose and Strategies¹

“PURPOSES - The purpose of this title is to promote homes that are affordable to low-income families in safe and healthy environments, and thereby contribute to the supply of affordable housing, by -

(1) deregulating and decontrolling public housing agencies, thereby enabling them to perform as property and asset managers;

(2) providing for more flexible use of Federal assistance to public housing agencies, allowing the authorities to leverage and combine assistance amounts with amounts obtained from other sources;

(3) facilitating mixed income communities and decreasing concentrations of poverty in public housing;

(4) increasing accountability and rewarding effective management of public housing agencies;

(5) creating incentives and economic opportunities for residents of dwelling units assisted by public housing agencies to work, become self-sufficient, and transition out of public housing and federally assisted dwelling units;

(6) consolidating the voucher and certificate programs for rental assistance under section 8 of the U.S. Housing Act of 1937 into a single market-driven program that will assist in making tenant-based rental assistance under such section more successful at helping low-income families obtain affordable housing and will increase housing choice for low-income families; and

(7) remedying the problems of troubled public housing agencies and replacing or revitalizing severely distressed public housing projects.”

¹ This language constitutes Section 502(b) of the Act.

Issues and recommendations listed in “Public Housing Reform and Voucher Success: Progress and Challenges” (Brookings Institution, January 2005)

A. Improving or replacing the public housing stock

Issues

1. The HOPE VI program has been put on the federal chopping block
2. The aggressive demolition and disposition of public housing could result in the elimination of viable units, which were not adequately replaced
3. Data are insufficient to track all important aspects of public housing redevelopment
4. HUD’s commitment to replace public housing is unclear
5. The capital fund financing initiative is extremely valuable but has been limited by unsettled HUD requirements, processing bottlenecks, and constraints on borrowing for some small PHAs
6. The Bush administration proposed, but then dropped after encountering congressional opposition, an innovative proposal to leverage additional capital and promote property-based financial discipline
7. The lack of completed regulations and guidance continues to limit PHAs’ options for transforming their public housing
8. The combination of HUD’s insistence on detailed transaction approval processes and limited staffing resources slows implementation of mixed-finance, capital fund borrowing, and other initiatives

Recommendations

1. HOPE VI should continue at a restored funding level; emphasis should be on moving the projects in the pipeline and improving the fate of relocated residents
2. HUD should track, compile, and release additional data on demolition and replacement housing on programs other than HOPE VI, relocated families, and replacement vouchers
3. The demolition and disposition approval process should be examined carefully to ensure that the results are positive for affordable housing

4. HUD should fully support PHAs' efforts to produce replacement public housing
5. The capital fund financing initiative should be supported further by streamlining and settling the processing requirements and providing the necessary staff resources
6. PHRI or a similar property-based capital financing mechanism should be enacted and implemented
7. HUD should complete the regulations or guidance to allow the act's full implementation
8. HUD should expedite processing through a more wholesale approach and adequate staffing

B. Promoting self-sufficiency and poverty deconcentration

Issues

1. Families' progress toward self-sufficiency has been considerable as measured by workforce participation, but less so in terms of increased income
2. The act's rent changes have complicated an already complicated rent system and raised equity issues, without clearly demonstrating effectiveness
3. Data and analytical gaps handicap assessment of the self-sufficiency and poverty deconcentration initiatives
4. The act's community service requirement continues to meet with great resistance
5. The impact of the act's increased public housing admissions flexibility remains unclear
6. The success of efforts to address concentrated poverty may be limited primarily to HOPE VI developments
7. Recent administration proposals to turn rental vouchers into block grants, if enacted, would eliminate the Brooke amendment rent protections and income targeting

Recommendations

1. Several of the act's specific rent provisions can and should be simplified, without changing their purpose or their cost
2. Broader rent simplification should be pursued, consistent with the general parameters of the Brooke amendment
3. HUD should evaluate progress on self-sufficiency and poverty deconcentration

4. The act's community service requirement should be a local PHA option
5. HUD should more actively encourage PHAs to leverage supportive service funds
6. The public housing and voucher programs should continue to play an important supportive role in promoting family self-sufficiency
7. A range of strategies, including substantial capital improvements for many developments, must be used to lessen concentrated poverty
8. Proposals to eliminate rent-setting and income-targeting requirements in the voucher program should be rejected

C. Improving or replacing public housing management

Issues

1. HUD's performance evaluation system for public housing remains flawed
2. The act's mandatory receivership remedy for troubled PHAs has not been implemented
3. The act's mix of deregulation and additional directives has resulted in important additional flexibility, but the mix is sometimes difficult to administer
4. The local accountability process has not been fully streamlined
5. The Bush administration has proposed a new demonstration program for public housing deregulation with questionable parameters
6. The move to a property-based management and financial system could be very beneficial, but will pose regulatory and management challenges

D. Recommendations

1. The public housing assessment system must be settled, improved, and fully implemented
2. The act's mandatory receivership remedy for troubled PHAs should be implemented, and Congress should add further flexibility
3. Congress and the administration should pursue further program streamlining and simplification
4. Any new public housing demonstration should be narrowly focused, and not be substituted for broader, but carefully defined, statutory changes to increase local flexibility

5. The conversion to property-based management should proceed, but with substantial regulatory flexibility

D. Improving the voucher program

Issues

1. The enormous expansion in voucher use has been reversed and could deteriorate further under new funding laws

2. The causes and possible justifications for the voucher program's cost increases need further objective analysis and attention

3. Based on shifting rationales, the administration has proposed to use block grants to fund the voucher program

4. The effectiveness of certain aspects of the voucher program remains a concern

Recommendations

1. A funding system related to actual lease experience should be enacted, with reasonable flexibility and funding to allow PHAs to lease their baseline allotment and to provide more flexibility surrounding overleasing

2. The analysis of the per-unit program cost increases, and the possible benefits of those cost increases, do not justify fundamental program restructuring beyond simply cutting back housing assistance

3. The basic national voucher program parameters should not be lost in favor of a block grant concept, even if funding must be reduced

4. Incremental program improvements must occur

General recommendations (from Brookings Institution report)

The next several years will be dominated by funding struggles. If these are not resolved favorably for public housing and vouchers, various points made in this paper will be moot. This paper rests on the assumption that the nation can provide adequate funding to support successful public housing and voucher initiatives, notwithstanding the budget crunch.

Leaving funding aside, even if there are no further statutory changes, the act's implementation will broaden and evolve substantially. This evolution ultimately will allow its purpose to be accomplished more effectively than is currently the case, and the interim grades may be raised if HUD takes several steps suggested by this review.

Generally, HUD should address comprehensively the extent to which important information on the act's effects is unavailable, uncompiled, unanalyzed, or not released. Although this paper has mentioned some specific shortcomings of publicly released data and analysis, this problem exists for many other aspects of the act. Both better and more accessible information and more analytical work are needed on

- Progress on public housing conditions and vacancy levels;
- The extent of PHA management efficiency;
- The extent of leveraged funds obtained outside of HOPE VI redevelopment efforts, including for supportive services;
- The quality of recent demolition and disposition applications;
- PHAs' use of discretionary authority, such as site-based waiting lists;
- The effect of specific act provisions, such as earned income disregards and local cooperation agreements with welfare and employment agencies;
- Changes in characteristics of landlord participation in the voucher program (e.g., participation by landlords and inclusion of larger buildings).

Gaps also exist in data and analysis regarding some characteristics of both public housing and voucher families and their neighborhoods. In the future, the following data and information should be addressed

- The impact of HOPE VI and mixed-finance developments on the sites' original residents (to add to substantial work already undertaken);
- "Quality of life" results at non-HOPE VI developments and their neighborhoods, where substantial income mixing or change in the mix of working and nonworking families has been achieved (e.g., impact on crime rates);

- Demographics and self-sufficiency progress of new and long-standing public housing residents, with HOPE VI separated from other developments;
- Trends and reasons for families leaving assisted housing; and
- Success in locating units, poverty deconcentration, and rent burden of voucher holders.

This paper has identified a number of other ways HUD could improve implementation and expedite reform. These include

- Promptly completing its regulatory or guidance tasks so that the tools provided in the act are fully available and all authorized subsidy and program alternatives can be fully used;
- Staffing or outsourcing the act's initiatives appropriately, including possibly using HUD's non-public-housing staff who are familiar with individual property and asset-based management to supplement HUD's public housing staff;
- Simplifying or streamlining requirements wherever plausible (e.g., with respect to high-performing PHAs), taking into account program risks;
- Advocating for legislation and funding that will better leverage funds, including on a property basis through proposals such as PHRI, to address remaining comprehensive public housing site revitalization and replacement needs; and
- Working to address voucher cost concerns in a manner that is more supportive of established and legitimate program goals.

Finally, even though the act is still being implemented, several areas of concern that require congressional attention. These include

- Oversight, including hearings on both the overall implementation of the act and implementation of the property-based management initiative;
- Continued funding of HOPE VI, where the grants and leveraged funds can contribute substantially to poverty deconcentration and the turn-around of neighborhoods, and to additional support for those relocated;
- Enactment of a capital leveraging mechanism along the lines of PHRI and possibly other additional capital leveraging tools, particularly in view of continuing funding constraints;
- Program simplification and added flexibility, including replacing complex public housing rent provisions with simpler provisions aimed at achieving similar affordability, and additional measures to eliminate various unproductive provisions or to make the act's initiatives more workable; and
- Continued support for the voucher program's mission and basic parameters.

To paraphrase Mark Twain, reports of public housing's reform may be exaggerated, but substantial progress has been made. The public housing program has been removed from life support, and the expanded and effective voucher program must not be undermined. We must recognize the progress that has been made, complete the job of fully activating the tools available, monitor results, and carefully remedy the program shortcomings. After six years' experience with implementation, this is a good time to begin.